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# **Employee ownership and the drive to do business responsibly: A study of the John Lewis Partnership**

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## **Abstract**

As a means towards revealing both the strategic and the day to day operational practicalities of managing a ‘responsible business’, this paper reports on research conducted over an extended period in the John Lewis Partnership (JLP). This is a major retail organization based in the UK which operates at scale (90,000 employees and annual sales of £11bn). It has sustained itself as an employee-owned enterprise for nearly a century, and it makes explicit claims to conduct itself in a ‘responsible manner’ which differs markedly from the notions of responsibility maintained by many conventional businesses. But what do these commitments mean in practice and what compromises, if any, do they entail or require, and crucially how are these tensions managed? We find that there are many lessons that conventional organizations could learn from this case, and yet we also show that the process of managing in this responsible way is a practical accomplishment that requires considerable conceptual and applied skills.

## **Introduction – The idea of a ‘responsible business’**

The John Lewis Partnership (JLP) is a much admired - even revered - business. This is not only, or simply, a consequence of the important differences in the ways JLP partners are treated and rewarded or of the implications of this treatment for the quality of the services they provide customers. It is also a consequence of extensive and vigorous management efforts to construct the way in which the partnership is known and understood both within the partnership and without. These extensive and pervasive conceptions are not simply fabrications. They are based on reality. But they also extend and project a construct of reality which carries its own consequences.

One of the objectives of this article to interrogate the pervasive public and internal perception of the JLP (especially with respect to claims about ‘responsibility’) with a view to separating the more complex, contradictory, even on occasion contested, realities of the dynamics of the partnership from the more comforting and seemingly unproblematic depictions found in journalistic and managerial accounts.

Such an interrogation requires a focus on two key elements of the conceptions of the partnership: that the partnership’s employment/ownership model in itself generates value for customers’ and thus for profit, and that in an organization that is co-owned, conflict between managers and non-management partners, and the possibility that the executive may make decisions not favourable to the future of the business or the interests of partners, are inherently unlikely. Our research reveals that both these major claims are questionable.

JLP management place major emphasis on a simple model: the Partner-Customer-Profit cycle. This contends that the way partners are treated, and the co-ownership of the business means that partners respond with added commitment and discretionary effort in ways that enhances the experiences of customers (important in a service-based industry) and that this thus enhances profit. In the JLP version there is a further feedback loop to the idea that profits in turn are distributed to partners both directly and indirectly through the development of the business.

The reality is more complex than this. First, the alleged linkages are not entirely automatic but require constant management intervention and management. Secondly while it is true that the JLP partnership model generates commitment, this is contingent and must be maintained by active management across a range of issues including decisions about the allocation of annual profits in a manner which increases the perception of business performance (and thus of management competence), and also including management efforts to ensure that management decisions are well-regarded and respected within the democratic structures and processes.

Thirdly, while partner commitment, when assured, is capable of impacting on sales and sales revenues, it is seemingly less secure in delivering profitability. The JLP model is good for sales but less good for profits. JLP managers insist on the principle whereby the additional costs of the JLP model must be recoverable through the enhanced performance of the JLP businesses. But, after 20 years of searching for this alchemist's formula there is little evidence to support this.

The JLP model allows an highly unusual degree of apparent democratic influence from partners through representatives on senior management decision-making. However, our research suggests that a series of subtle management processes (including the vigorous management of meaning) significantly reduces the accountability of senior management decision-making. And while, in the short term, this makes management life easier, in the longer term it may also negatively impact on the quality of senior management strategic decisions.

These considerations have taken-on an increasing importance beyond the Partnership to the wider business world as the idea of 'responsible business' has moved from periphery discussion about corporate social responsibility to assume a new urgency in contemporary business discourse. This is most notable since the 2008/9 financial crisis.

Advocates stress either the mutual gains from responsible business or the ethical necessity – or both. The Organisation for Responsible Business states:

We believe it is essential that businesses are profitable and ensuring this must be the first responsibility. But profitability should not override all other considerations. "How" profits are made is extremely important and therein lies the key to other areas of responsibility that should never be overlooked.<sup>i</sup>

It suggests the possibility and desirability of a mode of business behavior which goes beyond the conventional requirements and beyond the exercise of individual ethical behavior by participants in the business. It implies that in its dealings with a range of stakeholders the business will have (or should have) 'behaving responsibly' embedded as part of its normal ways of operating. It suggests routine behavior which extends

beyond mere compliance with the law. It means acting with regard to the interests of stakeholders beyond the owners of the firm and implies a serious intent to work towards socially positive outcomes. These are all attributes claimed by the founder and his successors in the JLP.

However, the notion of a ‘responsible business’ is contentious (McWilliams and Siegel 2001). Critics of the concept suggest that such statements express a self-serving propaganda designed to secure a veil of legitimacy. Conversely, they contend that it is wrongheaded and counter-productive to attempt to deviate from the clear pursuit of shareholder value.

Many studies have sought to track the impact of CSR on various outcome measures such as financial performance, corporate reputation (Walker and Dyck 2014, Zhu, Sun et al. 2014) and customer loyalty (Raman, Wayne et al. 2012). Studies have also shown the value of reputation when confronting a crisis (Bundy and Pfarrer 2015) and the value of a halo effect (Chernev and Blair 2015). Other approaches indicate more of an interest in explaining the emergence of the phenomenon itself and/or may seek to explain the role of such exhortations in the context of late capitalism.

Research reviews of the concept of ‘corporate social responsibility’ note the many gaps in understanding about these process and practice issues (Kitzmueller and Shimshack 2012, Attig and Cleary 2015). A number of central questions are identified, these relate mainly to who takes responsibility for enacting and delivering a responsible business and how that work is balanced that with other business priorities (Baïada-Hirèche, Pasquero et al. 2011). This, in turn, relates to questions about actual practices of managers (Globerman 2011) and the organizational drivers of their actions (Du, Swaen et al. 2013, Schnepfer, Meyskens et al. 2015). And, most central to our agenda, is the question of how to move beyond the ethical commitment of individual managers to a more systemic approach which embeds social responsibility in everyday routines and corporate governance (Mason and Simmons 2014).

Our aim is to report on the lessons from a close study of an organization which is explicit in its claim to be a responsible business. Moreover, this is a business which defines the notion in distinctive and highly ambitious, terms and which also insists that its focus on socially responsible commitments has a direct and positive impact on performance. But, in order to put this case study into perspective, we begin with an overview of business-as-usual or what we term ‘normal business’.

### **‘Normal business’**

From the 1970s, most notably in the USA and the UK, something changed in the way in which normal business was thought about and conducted. The philosophy of a sharper focus on shareholder value became more dominant and the share of rewards was skewed to highest earners. The result was that while productivity increased by around 80%, average wages rose on average only 4%, and corporate profits spiked to the highest proportion of national income for sixty years. What had changed was the emergence and dominance of a new ideology of the capitalist firm, which redefined the notion of ‘responsibility’. This new notion of business responsibility carried ideas not only about the firm – what it was for, how it should work, how it should be led, what leaders should be like and behave – but also about the necessary forms of relations

between workers and management and the principles which should determine these relations, and about the role of the state in economic life.

The version of the business organization currently prevalent in the US and UK is in increasing trouble both in its internal operation and its external consequences. It is prone to periodic crisis, the decline of investment in favour of value extraction, and to the persistence, and even fuelling, of extreme inequality. The nature and the sources of the problem have been explored with increasing frequency (Appelbaum and Batt 2014; (Gamble 2014); (Mayer 2014); (Streeck 2014); (Wolf 2014). The short-termist outlooks and behaviours of shareholders have been frequently noted (Peston 2013). Corporate leaders feel compelled to dance to the tune of the City financiers. The time horizons of these fund managers and their analysts are notoriously short. The trading of stock has become de-coupled from sensible performance evaluation of firms.

The source of the problem can be traced to ownership and to the emphasis placed on rewarding owners. The holding period of shareholders has declined from an average of eight years to about eight months (Mayer 2014). As he argues, the corporation: ‘has created more prosperity and misery than could ever have been imagined . . . the corporation is becoming a creature that threatens to consume us in its own avaricious ambitions’ (Mayer 2012). The corporation, especially the US/UK model, is in trouble.

The emphasis on shareholder value has impacted on the ways in which senior managers are rewarded for achieving this dominant goal. Over the past two decades in the US the ratio of CEO pay to average workforce pay has changed from 21:1 to 231:1 (in banks 500:1). Apart from wider societal consequences this also makes it harder to generate commitment among the workforce and also tempts CEOs into stressing profits above investment.

In some other countries the single-minded pursuit of shareholder-value is rather less pronounced and the market in businesses less unrestrained. And in recent years, a plethora of new financial players including hedge funds, sovereign investment funds, and private equity have transformed the commercial landscape and accentuated the focus on shareholder value.

As Hall and Soskice point out, there are varieties of capitalism (Hall and Soskice 2001). These are reflected in their celebrated distinction between liberal market economies as found in the UK, Canada, Australia, and the USA, and the coordinated market economies as found in Germany, Japan, and Sweden. As Hall and Soskice make clear, these varied practices are embedded in wider legal, social, and economic institutional contexts. In coordinated market economies, publicly listed companies are insulated from the effects of movements in stock prices; only a small fraction of shares is held and traded by dispersed shareholders; a much larger proportion is in the hands of families and companies who hold substantial blocks of shares for long periods.

So, there is a need to imagine (or re-imagine) an alternative model of the firm which could possibly work even within the prevailing socio-economic institutions (or which could suggest ways in which these institutions should be modified). The John Lewis Partnership (JLP) may be a stronger basis for such an imagining than has been realized. While JLP is frequently invoked as a model, it is often characterized as an eccentric,

niche residue, and not as a source of major challenges to the ‘truths’ of the prevailing model.

### **Research objectives of the case study**

The case organization (The John Lewis Partnership) has sustained itself over a prolonged period, it places employee-ownership at the core of its mission and its business model and it defines its responsibilities to staff, customers, suppliers and communities as central to its inherent purpose. In this context, our objective is to investigate the management practices involved in living up to these commitments when faced with critical business decisions relating for example to growth, financial outcome measures and targets, responding to economic recession, outsourcing, and internationalization. Thus, our research question is twofold: first, to *what extent* can this organization claim the label? second, to the extent that it might do so, *how does it achieve this as a practical accomplishment?* For this latter question, our scope and focus extends across strategic decision making and operational practice.

### **An introduction to the case study organization**

The John Lewis Partnership (JLP) is a large, commercially successful retailer operating mainly in the UK but with some outlets in other countries. It has two main constituent businesses: a department store division (John Lewis) which sells a full range of assorted household, fashion and electrical items, and a grocery division (Waitrose) which sells high-quality food in a chain of approximately 100 supermarkets. The businesses all belong to the overall Partnership – an employee-owned enterprise whose shares are held in trust for employee partners.

The JLP declares itself committed to a variety of ‘socially positive outcomes’. But its distinctiveness is revealed not only in its commitments to external, social, community and environmental standards and responsibilities, but more importantly in its fundamental commitments to ensuring positive outcomes for employees (‘partners’), customers and suppliers. These commitments are enshrined in the JLP’s constitution, structures, roles, processes, values and outcomes. The JLP is not a conventional business focused on orthodox outcomes which, as an afterthought, appends incorporate socially responsible commitments. Rather, it is inherently and fundamentally committed to responsibilities which differentiate it from conventional firms not only in how profits are distributed but in how they are generated.

Social responsibility is embedded in its structures and processes. By seeking to satisfy a set of differentiated responsibilities to a range of stakeholders (in contrast to a unified focus on share-holder value) the JLP unquestionably creates a distinctive organization with distinctive relationships between managers and partners and between the business and customers. These have significant implications for the performance and reputation of the JLP businesses, and for the distinctive challenges for its managers and sets up a series of internal tensions which must be maintained and balanced (though never fully resolved).

Furthermore, the JLP is of special interest because while conventional firms may claim to be committed to CSR goals as a reflection of the morality and values of the business (and therefore as a boost to reputation) it explicitly defines its commitment to

responsibilities towards staff, customers and suppliers as *central* to its business model, its behavior and performance. The JLP claims a direct causational linkage between its social responsibilities and its performance.

While JLP is unusual it may point the way to benefits that could be achieved more widely by businesses which, albeit not prepared to match the generosity of the JLP's founder in giving away ownership, might emulate some its other features through societal, legal and institutional mechanisms and prompts. The JLP is distinctive and interesting because it views 'responsibility' as central to its ultimate purpose and its everyday delivery of its mission. It defines its objectives not in terms of increasing shareholder value, but, rather remarkably in the context of today's language codes, as to ensure 'the happiness of all its members, through their worthwhile and satisfying employment in a successful business... because the Partnership is owned in trust for its members, they share the responsibilities of ownership as well as its rewards profit, knowledge and power.'

So much for the public proclamation. We set out to peep behind the curtain in order to understand what was actually happening and to understand how it was made to happen.

### **Research design and methods**

Our approach included what might be termed 'business research projects' as well as 'academic research projects'. We were closely involved with the organization over a 15 year period. The first 10 years was spent working on specific strategic projects concerning management development, business planning, values and culture, and board behaviours. But the final 5 years shifted the focus to a more conventional academic research mode of engagement. A central part of our academic research was to construct a 15 year timeline which tracked significant events such as responses to recession, the opportunity to expand into international markets, outsourcing of support functions, the introduction of partner (employee) surveys, attempts to revitalize democratic engagement and other significant critical incidents and shifts in strategy. We then mapped these events using diverse sources of information: most notably, drawing on the extensive business plans and related supporting documents supplemented and overlain with our own interviews of the principal players over the relevant time periods. Through this method of triangulation, we sought to understand and interpret how senior managers negotiated a series of key decision events. Using this method we delved into debates about 'who is a member' (dilemmas about whether to include outsourcing partners employed in retail outlets, warehousing and distribution centers etc) and into the fold of full membership; debates about whether and how to go international (would overseas employees be members of the partnership); debates about the merits of growth and at what pace and scale; debates about the fundamental purpose of the enterprise and associated debates about appropriate measures of performance - would these match conventional business measures or depart from these?

As part of this academic research phase, we interviewed nearly all members of the senior management teams at corporate level and at the business division levels and in the shared services. This group in total amounted to approximately 100 informants. Interviews were in the main recorded and transcribed. The resulting data set represents a critical reflection and interpretation of senior managers own accounts of their understandings and actions. In certain specific areas, we drilled-down into the

underlying layers to round-out our understanding of practices in retail trading and the operation of the supply chain.

The case findings and analysis which follow are divided into two parts. The first part focuses on employee ownership and its related components of sharing of power, knowledge and rewards. The second part widens the lens to consider how the case organization conducts itself with a wider range of stakeholders such as customers and suppliers.

### **Employee ownership and democratic voice**

A strong anchor in the responsible business identity of the JLP, stems from its ownership structure. The shares are held in trust on behalf of all employees. It is not quoted on the stock exchange: it raises investment capital by borrowing and by drawing on its own revenues. This independence is seen by senior managers as crucial: they continually emphasize that they can take the long view as they are not subject to quarterly reviews by the City. The partners have a voice in the running of the Partnership which includes a structure of representational democracy culminating in a Partnership Council and partner representatives elected to the main Board. There are three ‘governing authorities’ at the pinnacle of the Partnership: the Chairman, the Partnership Council, and the Partnership Board. The relationship between these is intended to be a system of checks and balances.

The JLP has made an unusual investment in democratic structures and processes. There are elected worker representatives on the main Board - a feature that marks a contrast with most companies. There is a tiered structure of committees from branch level through to divisional level and then corporate level to enable the partner voice to be heard—and indeed, to use a classic Partnership phrase, ‘to hold management to account’.

With ‘employee ownership’ comes the expectation that the organization will have a distinctive purpose and a set of objectives which differ from a conventional PLC. One key question deriving from this is the stance adopted towards the pursuit of profit. Will this be central or will it be but one objective alongside more distinctive others? The official position, as publicly stated, is as follows:

*The Partnership should make sufficient profit to sustain our commercial vitality and distinctive character, allow continued development and distribute a share of profits each year consistent with Partners’ reasonable expectations (The JLP Constitution)*

The elaborate structure of governing parties and of participatory mechanisms with voting, and time away from the trading floor in order to engage in scrutiny and debate, are all part of the system of checks and balances. There is a conscious attempt to install high standards of corporate governance. However, the extent to which, and the ways in which, partners can actually hold managers to account is questionable.

A further distinctive feature is the package of benefits. Partners share in profits, distributed as an annual bonus. The average bonus over the period 2011-2016 was over 14%, but the bonus showed steady decline over this period as the JLP experienced the vicissitudes of competition and of radically changing business models. Partners also



enjoy access to a benefits package which includes an unusual range of benefits – sabbaticals, leisure amenities and the like. Survey data reveal that 94 per cent of partners place a high value on the benefits provided; this puts the Partnership in the top 10 per cent of UK employers according to ORC benchmarking.

Until 2015, the JLP had a final salary, non-contributory final salary pension scheme. But this has recently been changed in favour of a hybrid scheme partly based on staff contributions. An unusual staff-support function is to be found in the role of the ‘registrars’. Registrars at central office and out in the branches ‘work with management to create a high performance culture’, whilst ensuring that this is in accord with ‘behaviour that is consistent with our principles and values’ and to help deliver ‘outstanding commercial results’. Part of their function is to ensure that branch managers and others do not become commercially focused at the expense of staff interests.

The partner–customer–profit model, which is central to JLP management’s conception of the essential dynamic and logic which connects the JLP’s distinctive conception of purpose with the distinctive performance of the JLP businesses, is not only descriptive; it is also aspirational, ideological, and prescriptive. It simplifies reality and it asserts a simple mutually supportive, instrumental relationship.

An absolute good (morality in/at work) is translated into something which is instrumentally good: and an end becomes a means. This subtly converts business success and any decision to achieve business success from an important and necessary precondition of partner happiness, to the source of partner happiness and thus the goal of the business, since the objective of the business is the happiness of partners. This argument not only posits a process of causation, but by doing so, also creates a moral responsibility among those who initiate the process, but it also defuses (rules out) any conflict between the various participants in the process.

Profitability, managers argue, is what is necessary to meet the challenges the partnership faces from five directions: supporting the pension fund; investment to increasing the efficiency of the businesses and changing the skills and capabilities base; investment to fund growth through opening new stores, new distribution centres; investments in online retail capability and adapting the historic—‘shop-based’—model and the systems and processes which support it; and lowering the cost of existing branches. JLP businesses must meet these challenges; ‘sufficient profit is the degree of profitability necessary to fund the divisions’ reactions to these threats’ (Document source, 2013). But locating the precise desired and required level of profit remains contentious. And it is hard to avoid the impression that levels of profitability have both real and symbolic significance. They are regarded not only as means of ensuring funds for investment, pensions, bonus, debt interest (and maintaining credit status), but also as a symbolic and public indication of corporate performance—as a way of demonstrating internally and externally, the quality of corporate achievement and thus of the JLP model and of JLP management, and so of management legitimacy.

In reality, JLP profitability is not at the same level as other retailers; while revenue growth tends to be higher than average, margin (profit) tends to be lower. This is not by conscious design. It is regarded as a regrettable shortfall that must be addressed through efficiency and other initiatives. Furthermore, the relatively low level of profitability does make it difficult to fund the Partnership’s various commitments, which is why, in 2015, the pension arrangements were altered, the bonus was reduced

and a bond for £3m issued to cover payments to the pension fund. But, is a low level of profitability a failure (as measure in conventional terms) or a success in that it reflects the operationalization of the Partnerships unique priorities?

Co-ownership introduces tensions that have to be managed; yet management policies may be insufficient to achieve this. JLP managers recognize that a balance must be struck between the polarities of performance and partnership and their attempts to ‘find a balance’ must be explored and assessed. The JLP difference, managers insist, generates—or should generate—competitive advantage. One interviewee commented as follows:

*If you're a believer in partnership then your starting point has to be....that the partnership way of doing business gives you a competitive advantage. It gives you a competitive advantage which is sustainable, difficult to copy, difficult to replicate, defensible and a true point of distinction. (Director, 2012)*

But this potential must be realized by management.

In reality managers recognize that the JLP model can be both an advantage and a disadvantage:

*I think, at worst, sometimes the partnership model is used as an excuse to not do those difficult things which would generate that additional return, it should give us the most fantastic advantage, but we struggle to turn that into economic advantage (Director, 2014).*

JLP managers place much emphasis on the importance of trust. Trust is the expected response to the successful demonstration that responsibilities are real and are honoured. Managers stress that customers trust the JLP and that is crucial for the success of the business. Customer trust is based on their trust in JLP partners and their confidence that the JLP employment model and values and ownership structure do not prioritise profit above partner or supplier welfare. In other words the JLP's commitment to multiple responsibilities is important in affecting perceptions of the public and the performance of the business and therefore must be maintained.

Senior JLP management stress the morality of their actions. This includes efficiency which, in JLP must be defined not simply as necessary (as in conventional businesses) but also as morally right: one component of this is to insist that in a co-owned business committed to partner happiness, partners are morally responsible for performance: ‘Because the Partnership is owned in trust for members, they share the responsibilities of ownership as well as its rewards—profit, knowledge and power’. JLP has three ‘Partner commitments’. And number one is: ‘Take responsibility for our business success—we take responsibility for delivering the right experience for all of our customers, generating profits for us all to share’ (Annual Report, 2013: 18). So co-ownership is translated into co-responsibility.

But stressing morality also carries risks. One of these is that the functionality of conflict as a potential source of alternative ways of seeing is downplayed and conflict is defined negatively. Dissent may be de-legitimized and viewed as disloyalty. A moralized

management context may make disagreement and challenge more difficult and more emotional—challenge is more likely to be discouraged and to be defined as selfishness or betrayal. So a possible, inadvertent and unanticipated consequence of the attempt to define partners' involvement and responsibilities in moral terms might be to reduce and sideline important potential sources of alternative perspectives.

In conventional businesses, the values that characterize work and employment are the values of the market: exchange transactions, market calculations of price and value, the 'morality' and authority of profit, self-interest. And these values are so widespread and so represented and honoured by commentators, government, and so embedded in the language of organizations and the measurements of performance and in the entire fabric of modern society, as to require no special extra work by management. Their management of meaning is done for them by external agencies. The market rules, in practice and morally. It is a 'fact of life'.

In JLP this is not the case because there is an alternative language which emphasizes radically alternative priorities: for example, 'partner happiness'. This creates a potential dilemma: and to solve this managers have to ensure that their actions are seen as consistent with prevailing systems of JLP morality. So, not only must managers represent what they do in terms of historic values, but also interpret or reinterpret these values for modern times. It is the moral foundations of the JLP that give the Partnership its competitive edge—and which adds to the appeal to customers. But this difference also supplies the framework within which managers have to act and represent their actions.

One major theme of the JLP dominant narrative is that JLP is a better way of doing business—and that morally better means commercially better. At best, as managers know only too well, this is only partly true. But the consequence of this assertion is to legitimate and support management's insistence that to receive the benefits of the JLP model, to experience the better experience of being a partner (which are real), is to accept a moral responsibility to produce the extra business benefits or to accept the legitimacy of management actions aimed at improving the efficiencies of the business—efficiencies which are in a sense the rightful dues of the businesses. Hence, in effect, JLP managers have subtly adapted the JLP model to make it create a form of contract between partner and Partnership that thus legitimizes management's right to enforce this contract. Morality thus becomes contractual: a subtle and interesting transition from the language of morals to the language of the market.

Another application of the contractualization of the JLP legacy is the widespread management message that the extra cost of the JLP model, and the impact of the model on partners (the 'better' way to do business) must ultimately be recoverable through the extra profit achieved by virtue of the value partners generate through their reactions to being treated 'better'. This reinforces the message that management is entitled to extra performance from partners by virtue of the partners' exposure to the JLP model, and that partners have a 'responsibility' to produce this. And so again the language of exchange and contract is laid on top of the language of morality—through the pivotal and ambiguous word: 'better'. Partners, in their work, have a responsibility to repay the cost of the JLP model with all its benefits. This is an interesting re-definition (from rights to responsibilities) of the implications of ownership.

But JLP managers' reliance on the narrative of consensus and harmony, may make the expression of challenge or the argument that consensus has limits and that real differences also exist alongside cooperation and consensus, harder to express by partners and harder to hear or accept for JLP managers. The stress on consensus may become so dominant that JLP managers themselves believe it: so any statement that deviates from prevailing orthodoxy (the dominant regime of truth: consensus) is seen as indicative of management failure (to communicate, to persuade) or partner disengagement or lack of commitment. So the actual issue being raised, or the alternatives being proposed, are seen as symptoms, not as genuine proposals: as indications of dysfunction and management failure.

JLP managers have been successful in creating and disseminating a narrative about the JLP, its nature, and consequences. This narrative insists on the legitimacy and consistency of management actions and partner 'responsibilities' in terms of the Partnership's historic moral framework and expectations. Management has also been successful in reinterpreting core components in this moral context in more modern, reciprocal, contractual terms. The narrative is not mere rhetorical window-dressing: it is based on reality and real difference—it reflects the history and distinctiveness of the JLP. But it also defines and creates reality—smoothing corners, simplifying, stressing some possibilities while skating over others.

### **Wider stakeholder responsibilities**

The JLP is highly unusual in that it makes explicit and public insistence that it has responsibilities to its customers and suppliers as well as its employees (partners). Furthermore, its structures, processes and outcomes are organized to make these claims a reality.

But how are they translated into business decisions? And what, if anything, can conventional businesses learn from the JLP? JLP managers insist not only that their responsibilities to partners and to customers and to necessary levels of business performance (to ensure continuing success) are compatible, but also that they are necessary for business success. JLP managers claim that the JLP model generates consequences which are attractive to customers and so add to the businesses' performance, thus implying a minimal role for management. But, in reality, management has a major role to play, if anything more, not less complex than in conventional businesses. Managers have to deal with the implications and the constraints of the JLP model. This has a number of elements including, for example, principles and values; and a series of historic practices, institutions, roles, and relationships. All policies and decisions must be, or must be presented as being, consistent with these historic constraints.

Over the past twenty-five years, senior managers have developed and implemented a range of business strategies and innovations but have struggled fully to 'release the potential' of the Partnership, to balance the costs of the Partnership difference by improved profitability, to realize the benefits that the JLP's distinctive and better way of doing business must—in their view—generate.

Management action to build capacity in JLP must address two major consequences of the JLP model: that it is a potential resource, and also potentially an obstacle which

must be overcome. JLP management insists on the importance and legitimacy of the vigorous pursuit of profit. The JLP solution is to insist that profit is the same as, and indeed necessary for, partner happiness, thus eliminating the possibility of conflict between the search for profit and partner happiness.

Another benefit is that the search for profit is legitimized and placed beyond dispute. As one senior informant stated:

*When Charlie Mayfield became chairman he expressed the Partnership's strategy in these three terms: Partners, Customer Service and Profit. I think what he's now trying to say is, he doesn't want people to think about them as separate. They are completely interlinked.*  
(Group manager, 2103)

This cycle, widely and authoritatively emphasized within the Partnership, manages to combine the JLP difference with business efficiency by claiming that the JLP difference is a source of profitability; that being morally better (the JLP difference) is better for performance (the principles of twenty-first century retail). But the cycle is important within the JLP not only because it defines—as it claims—the source of JLP's competitive advantage (which is more complex and uncertain than the cycle admits) but because by supporting management and its narrative of the JLP, in effect it resolves another dilemma: it defines away potential conflicts between competing logics within the JLP. What is good for profit is good for partners and what is good for customers (efficiency) is good for partners and profit. Responsible business is thus good business in both senses.

Sales performance relative to conventional competitors adds to the allure of the model. But the record on profitability might diminish the attraction for those parties seeking maximization of return. The reduced impact on profitability might reduce the attraction of the model, and JLP managers struggle ceaselessly to translate the consequences of the JLP model for partner engagement into JLP profitability. But the JLP model adds to JLP costs, constrains the range of options available to management, excluding or at least severely limiting the ability of JLP managers to degrade employment terms, to outsource, increase the intensification of labour and so increase profitability by reducing labour costs. Morally 'better' may add to business benefit but in a sense it clearly also *constrains* management behaviour—and rightly so: that's the point.

### **Is the model replicable?**

In the UK, politicians and many commentators have advocated the model as one which public sector organizations could emulate (although it is not certain that such recommendations represent an enthusiasm to recreate all components of the model). And certainly lots of managers in conventional businesses would love to be able to recreate the partner engagement and customer confidence/trust enjoyed by the JLP businesses. But it is unlikely that they would be prepared to pay the price associated with the model: the restrictions on management rewards and authority, and especially the ownership arrangements.

One reason for the paradox that while the JLP model and its businesses are widely admired, and the links between the model and the performance of the business generally

recognized and valued (especially by customers), managers and decision-makers in conventional firms may be less enthusiastic about the model even if they accept the thesis (possibly especially *if* they accept the thesis) that the model creates business benefit. For what is obvious about the JLP model is that it affords fewer possibilities for managers to enrich themselves - partly because of the principles and constraints of the JLP model but also because managers' enrichment in conventional businesses is through bonus systems and share option arrangements tied to the achievement of business results and increases in shareholder value, which are denied JLP managers because of its ownership structure.

Within the Partnership, managers differed on this. Some argued that it was possible to cherry-pick components of the model and to achieve a high proportion of the benefits in terms of employee and customer attitudes without the JLP ownership model, or with a more acceptable version of the ownership arrangements: for example profit-sharing. These were the senior managers who defined the model as a set of techniques that they could, having worked with them, take with them and apply elsewhere. But even these managers accepted that applying the model elsewhere would put serious and, for many, difficult demands on managers.

In practice, there are occasional examples of business owners setting up JLP-type arrangements but, unlike Spedan Lewis, without ceding total share ownership.

Management's good intentions are worth nothing if the business can be taken over by another business with a radically different management philosophy. The senior management of Cadbury was genuinely committed to the Quaker management principles of the business. But they were also legally required to protect the best interest of the shareholders when faced in 2009 with an increased bid from Kraft: as the Chairman commented, 'fiduciary duty had to overcome emotional instinct'. Despite promises made to protect the workforce and facilities, these promises were rescinded within a few weeks of the take-over and one of the plants was closed and its work off-shored to a cheaper location.

Unlike some other retailers, JLP partners are not working to support enormous debt liabilities incurred by private equity owners, are not working to generate a surplus for the owners who may be more interested in the money that can be extracted from the business than its long-term health and survival. As one director observed:

*You would need an endowment in a trust to defend the model. At the end of the day this is a capitalist world and financial forces will take over, because no one's going to protect it. It has to be underwritten, and if this business hadn't been underwritten it would've gone the way of the building societies. The partners would've found a way of taking £15,000 each and not worrying about anything else. That really would have happened, I think. It's a bit like capital punishment; people will vote for it unless you put in checks. I think you have to underwrite. (Waitrose director, 2014)*

The shared ownership basis of the JLP is not the only factor generating the trustworthiness of the business and its managers: the culture, constitution and principles, and institutions are also very important. These elements identify and lay an emphasis on the values that characterize relations within the JLP and between JLP and

the customers and suppliers. Unlike in conventional firms, the knowledge in JLP that the business is protected from the risk of management strategies devised by managers oriented towards shareholder value is a crucial underpinning of employee and customer confidence.

This psychological and moral implication of JLP's ownership is crucial. It is hugely important as a source of the 'discretionary effort' of which managers are so conscious and so proud. And it is a foundation on which to build the ubiquitous JLP narrative of difference, trust, and decency. One manager argued that one limit to the take-up of the model elsewhere is that top managers in general would not be satisfied with the deal. Furthermore, he made the important point that the replicability of JLP was limited by the complexities of managing within this kind of model.

In any assessment of the possibility of replication of the JLP model it is necessary to distinguish between the image and the reality of the JLP: how it works and how management operates to make it work. This reality is far more complex, subtle, and complicated and, to a degree, contradictory than the comments and assessments of many advocates might suggest. Management action, carefully crafted to comply with the declared values and principles is required to accentuate the positives and neutralize the negatives. In these endeavours, recent and current management have been very successful. Management must balance commercial priorities and requirements and partners' interests, and achieving this balance is a constant challenge. So, replicating the JLP—if it is possible—is going to be a complex business and require a great deal more management skill and understanding than some advocates recognize.

Many competitors envy JLP the reputation it has achieved, its appeal to customers, the commitment of the partners. They would like to emulate these. But they would probably prefer to do this without emulating the JLP's shared ownership. Thus, if they are interested in emulating the JLP, it is probably to find techniques which can assist them to achieve conventional objectives. This will probably be as ineffective as it is ironic: for the whole point of the JLP and the source of its success is that it is not simply and solely committed to one set of stakeholders.

## **Conclusions**

Employee ownership and the employee (partner) focus are fundamental to JLP's socially responsible approach and to the performance of the business. In the JLP, unusually, social responsibility – as distinctively defined – is not simply a matter of how profits are distributed, but also of how profits are generated. Furthermore, in the JLP, social responsibility (i.e. commitments to staff, customers and suppliers) is not simply a matter of executive decision and strategy but is also pervasively institutionalized. Employee ownership – although fundamental in many respects (supplying the basis for patient shareholders and protection from predatory, asset-stripping takeovers) would in itself not be enough to guarantee and maintain a socially-responsible business. Employee owners could be equally prone to self-interested actions as conventional shareholders (apart from a stronger attachment to a sustainable organization). The multiple, socially responsible dimensions of the JLP model (with regard to customer and suppliers and society) stem from the legacy of the Founder's wider business philosophy and practical ethics, which were institutionalized through a set of mechanisms and policies which have endured. These include: a commitment to

the sharing of power, knowledge and rewards; a set of governing authorities which are designed to provide checks and balances; a written constitution which enshrines the values and the rights and responsibilities; a set of democratic institutions which encourage employee participation and a principle of holding management to account even if this may be attenuated in practice; a culture embedded enough to ensure that key appointments are, overall, mindful of the ongoing commitment to the set of values.

The John Lewis Partnership is not a consultancy package, or a collection of management, communication, reward, and participation techniques focusing on sharing profit, knowledge, and power. It is much more than this: it is fundamentally a set of serious, inter-locked and mutually supportive commitments and responsibilities towards its key stakeholders, responsibilities and commitments which are underpinned by the ownership structure and maintained by a set of supportive structure, processes and values. While a fascinating organization in its right (and a source of pleasure and trust for customers and admirers) it is potentially of greater and far-reaching importance because by showing that genuinely honouring and protecting the interests of partners and suppliers actually improves customers' trust and thus revenue, it shows that morally better can also be business better. And by demonstrating that limiting the capacity of speculator, asset-stripping corporate purchasers supports the long term growth and security of the business, the JLP shows the benefits that accrue from the various societal institutional mechanisms deployed around the world to curtail corporate speculators and encourage patient capitalism.

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<sup>i</sup> [http://www.orbuk.org.uk/responsible\\_business.php](http://www.orbuk.org.uk/responsible_business.php)